

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 SP-02 ICA-11 AID-05 EB-08 NSC-05

TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 H-01 L-03 PA-01 DOE-15 SOE-02

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E.O. 11652: N/A

TAGS: EGEN, EFIN, BL

SUBJECT: BOLIVIA SEEKS LOAN FROM IMF TRUST FUND

1. IN A LETTER OF MAY 31, 1978 THE GOVERNMENT OF BOLIVIA REQUESTED A LOAN FROM THE IMF TRUST FUND OF APPROXIMATELY \$17 MILLION. WE HAVE BEEN ADVISED THAT THE GOVERNMENT ALSO INTSKTHE FUND'S COMPENSATORY FINANCING MECHANISM, AND AN ADDITIONAL \$11 MILLION BASED ON ITS RESERVES POSITION WITH THE IMF (GOLD TRANCHE).

2. THE GOB WAS OBLIGED TO SUBMIT A LETTER OF INTENT IN SUPPORT OF ITS REQUEST FOR A TRUST FUND LOAN, AND WE UNDERSTAND THAT THE LETTER INCLUDED PLEDGES TO LIMIT BOTH THE PUBLIC SECTOR DEFICIT AND GENERAL PURPOSE COMMERCIAL BORROWINGS IN 1978.

3. AN IMF DECISION ON THE LOAN IS EXPECTED BEFORE THE JULY 9 ELECTIONS, BUT, PRESUMING THE REQUEST IS GRANTED, NO PUBLIC ANNOUNCEMENT IS LIKELY TO BE MADE IN ADVANCE OF THE ELECTIONS. THE GOB IS SAID TO BE CONCERNED THAT OPPOSITION PARTIES WOULD INACCURATELY PORTRAY THIS OPERATION WITH THE IMF

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AS A RESORT TO STANDBY FACILITIES IF THE DECISION TO TURN TO THE FUND BECOMES PUBLIC AT THIS TIME. ALL OF THE APPROXIMATELY \$40 MILLION INVOLVED IN THESE TRANSACTIONS COULD BE MADE AVAILABLE TO THE GOB BEFORE JULY 9.

4. IMF REGULATIONS REQUIRED THAT BOLIVIA APPLY FOR A LOAN FROM THE TRUST FUND ON OR BEFORE MAY 31. WE BELIEVE THAT

THE DECISION TO DRAW ON THE ADDITIONAL AMOUNTS AVAILABLE WAS PROMPTED BY THE REALIZATION THAT DESPITE EFFORTS BY MINISTRY OF FINANCE AND CENTRAL BANK AUTHORITIES TO CURB IMPORTS AND STEM SHORT TERM CAPITAL FLIGHT, BOLIVIA WILL INCUR A BALANCE OF PAYMENTS DEFICIT IN 1978 WHICH IS NOW OFFICIALLY ESTIMATED AT \$75 MILLION. TO HOLD THE DEFICIT TO THIS TARGET FIGURE BOLIVIAN AUTHORITIES ADMIT THAT THEY MUST REALIZE CUTS OF \$150 MILLION IN GOVERNMENT EXPENDITURES, IN ADDITION TO THE APPROXIMATELY \$50 MILLION IN BUDGET CUTS ALREADY AGREED TO BY PUBLIC ENTERPRISES AND GOVERNMENT MINISTRIES. ALTHOUGH THE MINISTRY OF FINANCE IS MAKING A DETERMINED EFFORT TO REDUCE PUBLIC SECTOR SPENDING, E.G. REPRESENTATIVES OF THE COMPTROLLER ARE NOW PRESENT IN VIRTUALLY ALL PUBLIC CORPORATIONS AND THEIR EXPLICIT AUTHORIZATION IS REQUIRED FOR PURCHASES AND PAYMENTS, IT WILL BE DIFFICULT TO MAKE MAJOR NEW REDUCTIONS IN THE FINAL DAYS OF THIS GOVERNMENT AND THE EARLY MONTHS OF THE NEW ADMINISTRATION.

5. THE PRESIDENT OF THE CENTRAL BANK HAS TOLD US HE IS RELATIVELY OPTIMISTIC THAT THE BALANCE OF PAYMENTS DEFICIT CAN BE HELD TO \$75 MILLION IN 1978, AND THAT A DEFICIT OF THIS SIZE WOULD REQUIRE ONLY ABOUT \$9 MILLION IN NEW FINANCING (ASSUMING \$40 MILLION IS OBTAINED FROM THE IMF) FROM OUTSIDE SOURCES. WE ARE DOUBTFUL THAT THE DEFICIT CAN BE HELD TO THE \$75 MILLION TARGET. IN OUR VIEW THE BALANCE OF PAYMENTS DEFICIT IS LIKELY TO EXCEED \$100 MILLION, AND MAY REACH \$150 MILLION. (AN LIMITED OFFICIAL USE

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UPDATED BALANCE OF PAYMENTS ANALYSIS, INCLUDING A DISCUSSION OF MEASURES BEING TAKEN BY THE GOB IS BEING SENT IN A SEPARATE MESSAGE.) A REGULAR IMF CONSULTATIVE MISSION VISIT TO BOLIVIA IS PLANNED FOR ABOUT NOVEMBER OF 1978.
BOEKER

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